No. 22148

In the

United States Court of Appeals

For the Ninth Circuit

RICHARD S. SIMPSON,
Appellant,

vs.

UNION OIL COMPANY OF CALIFORNIA,
Appellee.

Appellee's Supplemental Brief

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Our brief (Brief for Appellee) was filed in this Court on Friday, June 14, 1968. On Monday, June 17, 1968, the Supreme Court decided Nos. 335 and 463, October Term 1967, *The Hanover Shoe, Inc. v. United Shoe Machinery Corp.; United Shoe Machinery Corp. v. The Hanover Shoe, Inc.,* since reported in 20 L.Ed. 2d 1231. Our brief would have cited and discussed the *Hanover* opinion had it been rendered before that brief was filed. Appellant's Reply Brief refers to that opinion defensively but more should be said about it. We submit this Supplemental Brief primarily for that reason.

I.

THE HANOVER SHOE DECISION

In 1953, in *United States v. United Shoe Machinery Co.,* 110 F.Supp. 295 (D.Mass.), Judge Wyzanski found United Shoe guilty of monopolization of shoe machinery in violation of Section

2 of the Sherman Act and enjoined it from offering machines for lease unless it also offered them for sale. This judgment was affirmed in *United Shoe Machinery Corp. v. United States,* 347 U.S. 521 (1954).

Hanover Shoe Company then sued United Shoe for damages inflicted by this violation of Section 2 effectuated by United's policy of leasing machinery and not selling it, and it recovered judgment in the District Court. In *The Hanover Shoe, Inc. v. United Shoe Machinery Corp.,* 377 F.2d 776 (1967), the Court of Appeals for the Third Circuit modified the judgment for several reasons, only one of which is of interest here. The District Court had awarded damages for the full period not barred by the statute of limitations, back to July 1, 1939. United Shoe argued that damages should not be awarded for any period prior to Judge Wyzanski's decision, urging that on three occasions, in 1913, 1918 and 1922, its activities had been before the Supreme Court, and that the "lease only" policy had never been condemned until Judge Wyzanski did so. The Court of Appeals agreed with United Shoe's argument only partially. It held that the Supreme Court's approval in *American Tobacco Company v. United States,* 328 U.S. 781 (1946) of Judge Learned Hand's *Alcoa* analysis of "monopolization" as a violation of Section 2 of the Sherman Act (*United States v. Aluminum Company of America,* 148 F.2d 416 (2 Cir. 1945), was a new interpretation of Section 2 of the Sherman Act, whereby a "lease-only" policy first became illegal, contrary to what it felt had been the implicit view of the Supreme Court in the cases of 1913, 1918 and 1922. The Court of Appeals therefore held that damages could be awarded back to the date of the *American Tobacco* decision in 1946 but not earlier, and in this connection its opinion contains a discussion under the heading "The Retroactive Effect of the Government Decree" in which it cites (in fn. 17) *Simpson v. Union Oil Company of California,* 377 U.S. 13.

The Supreme Court granted certiorari on the petitions of both *Hanover* and *United Shoe.* United Shoe argued that the Court of

Appeals had not applied the principle of non-retroactivity as fully as it should, urging that damages should not have been awarded for the time prior to Judge Wyzanski's decree. Hanover Shoe admitted the principle that an overruling decision should not be given retroactive effect but argued that the principle was inapplicable on the facts, because the *Alcoa-American Tobacco* decisions were not new law and because it was untrue that the Supreme Court had condoned the "lease-only" policy in 1913, 1918 or 1922.

Hanover's brief in the Supreme Court, as petitioner (in No. 335), made this statement (at pp. 31-32):

> "In *Simpson c. Union Oil Co.,* 377 U.S. 13 (1964) this Court considered the application of *U.S. v. General Electric Co.,* 272 U.S. 476. In *General Electric* the Court found unobjectionable the use of the consignment sale method by a patentee to control the prices at which its consignee sold the patented articles, but did not restrict its holding to patented articles, saying expressly that the use of the consignment device was available to the owners of articles either 'patented or otherwise,' 272 U.S. 476, 488. *Simpson* declined to follow *General Electric* so far as unpatented articles are concerned. Likely out of concern for those, including Union Oil, who may have relied on the language of *General Electric,* the Court in ordering a remand, recognized and expressly reserved 'the question whether, when all the facts are known, there may be any equities that would warrant only prospective application in damage suits of the rule governing price fixing by the "consignment" device which we announce today,' 377 U.S. at 24-25. There was in *Simpson* a clear change of a rule the Court had previously laid down. No such change can be found in *Aluminum* or *American Tobacco* or, as we shall see, in the *United Shoe* cases."

In its brief in No. 463 (in which it was respondent) Hanover's argument is set forth in greater detail (at pp. 41-44), but it can be summed up in the statement that unlike *Simpson* its case involved no change in the law and therefore no question of retroactivity. At the time that brief was written, the decision below

in *Simpson v. Union Oil Company,* 270 F. Supp. 754 had been rendered and was cited in United Shoe's brief in the Supreme Court. Hanover's brief in No. 463 stated that *Simpson* was inapplicable because *Simpson* was "a case of a clear change of a rule" (p. 41) and (p. 42) because, also, there "is no claim in this record of reliance by United on counsel, such as there was in the testimony of counsel in *Simpson v. Union Oil Company,* 270 F. Supp. 754 (N.D. Cal. 1967)."

The Supreme Court decided the case on the basis advanced by Hanover; that is, that there had been no change in the law of monopolization (Part III of its Opinion). It held that the *Alcoa-American Tobacco* decisions had not altered the law of monopolization,* saying:

> "The theory of the Court of Appeals seems to have been that when a party has significantly relied upon a clear and established doctrine, and the retrospective application of a newly declared doctrine would upset that justifiable reliance to his substantial injury, considerations of justice and fairness require that the new rule apply prospectively only. Pointing to recent decisions of this Court in the area of the criminal law, the Court of Appeals could see no reason why the considerations which had favored only prospective application in those cases should not be applied as well as in the civil area, especially in a treble damage action. There is, of course, no reason to confront this theory unless we have before us a situation in which there was a clearly declared judicial doctrine upon which United relied and under which its conduct was lawful, a doctrine which was overruled in favor of a new rule according to which conduct performed in reliance upon the old rule would have been unlawful. Because we do not believe that this case presents such a situation, we have no occasion to pass upon the theory of the Court of Appeals.

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*The view of the Court of Appeals had been that before *Alcoa-American Tobacco* a requisite of monopolization under Section 2 was the existence of predatory practices in addition to monopoly power and that those cases changed the law by elimination of the predatory element; also that in prior litigation the Supreme Court had upheld United Shoe's practices.

> "Neither the opinion in *Alcoa* nor the opinion in *American Tobacco* indicated that the issue involved was novel, that innovative principles were necessary to resolve it, or that the issue had been settled in prior cases in a manner contrary to the view held by those courts. In ruling that it was not necessary to exclude competitors to be guilty of monopolization, the Court of Appeals for the Second Circuit relied upon a long line of cases in this Court stretching back to 1912. 148 F.2d at 429. * * * These cases make it clear that there was no accepted interpretation of the Sherman Act which conditioned a finding of monopolization under § 2 upon a showing of predatory practices by the monopolist. In neither case was there such an abrupt and fundamental shift in doctrine as to constitute an entirely new rule which in effect replaced an older one."

It is obvious, we submit, that, although it did not mention the *Simpson* case by name, the Supreme Court was plainly contrasting the facts of *Simpson* with the facts of *Hanover*. Appellant's Reply Brief now asserts of the Supreme Court's decision in the *Hanover* case (p. 8):

> "In its analysis of the issue the Supreme Court stated that the defense to liability under the Sherman Act because of reliance upon prior law could not even be raised unless (1) there was a clearly declared judicial doctrine, (2) upon which a defendant relied and (3) under which its conduct was lawful, (4) a doctrine which was overruled (5) in favor of a new rule according to which conduct performed in reliance upon the old rule would have been unlawful. Id. at 85,622. Appellant asserts that under the tests laid down in *Hanover Shoe,* Union Oil can fare no better than did United Shoe."

We submit that each of the five elements, as numbered by appellant, is plainly present here.

Our Submission Summed Up

1. *Simpson v. Union Oil Co.,* 377 U.S. 13, established as the *Law of the Case,* for cases involving its consignment rule, that the

principle of non-retroactivity is applicable to a treble damage action in proper circumstances.

2. The Supreme Court did not spell out, in that case, in so many words what were the proper circumstances that would call the principle of non-retroactivity into operation. But what they were was reasonably evident then and has now been articulated in its *Hanover* opinion. They are the circumstances which Appellant's Reply Brief parses into five elements. That is the significance of the *Hanover* decision for this case.

3. Whether those circumstances exist in this case is a mixed question of law and fact, decided by the District Court in appellee's favor.

4. So far as the element of *reliance* is concerned, the findings of the District Court are abundantly sustained by the record and, we submit, are conclusive.

5. No doubt the element of what was the clearly declared prior law and how revolutionary was the new rule are questions of law, on which this Court's views are paramount to that of the District Court. But as to that, we submit (a) that the District Court was clearly right, and (b) that the Supreme Court recognized that its decision in *Simpson* was a new rule "announced today", April 20, 1964. To employ the formulation of the *Hanover* opinion, its decision in *Simpson* plainly recognized that the *Simpson* case involved "a situation in which there was a clearly declared judicial doctrine * * * under which its [Union's] conduct was lawful, a doctrine which was overruled in favor of a new rule according to which conduct performed in reliance upon the old rule would have been unlawful," and left open to be determined on trial whether Union had relied on the former doctrine. No other reason can be given why the Supreme Court closed its opinion in *Simpson* on the controlling sentence:

> "We reserve the question whether, when all the facts are known, there may be any equities that would warrant only prospective application in damage suits of the rule governing price fixing by the 'consignment' device which we announce today."

Appellant's continued assertion that the Supreme Court's decision in *Simpson* was not revolutionary new law is a forlorn hermit in a universal forest of contrary view of those who have written on the subject.

II.

REPLY TO NEW MATTER IN APPELLANT'S REPLY BRIEF

All but one of appellant's arguments on the subject in its Reply Brief (pp. 8, et seq.) were answered in our brief, but that Reply Brief contains this sentence (p. 9):

> "*General Electric* was directly attacked by the Department of Justice and remained as precedent for patented articles by a four to four split. *United States v. Line Material Co.,* 333 U.S. 287 (1948). Its applicability as a precedent under the Sherman Act was repudiated directly in *United States v. Masonite Corp.,* 316 U.S. 265 (1942), and in *United States v. United States Gypsum Co.,* 333 U.S. 364 (1948)."

Because the assertion about *United States v. Line Material* had been made in the court below, had been shown to be unsound, and was not repeated in Appellant's Opening Brief, we assumed that it had been abandoned and therefore did not refer to it in our brief.* Since it has re-emerged in the Reply Brief, we briefly respond. The simple fact is that the *United States v. General Electric Co.,* 272 U.S. 476 dealt with two entirely separate questions (pp. 478, 479, 488). One had to do with the legality of consignment under the antitrust law, i.e., whether it is illegal to appoint an agent to sell one's product and to fix the price at which the agent is to sell the principal's property. That was the pertinent question in the *Simpson* litigation. The other was whether the patent grant permits the patentee to fix the price at which a licensee is to sell—not the patentee's property—but the licensee's property. The Supreme Court in *General Electric* held that the patent grant *does* give that right. *That,* and not the consign-

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*The assertion about *Masonite* was made in Appellant's Opening Brief and has been answered in the Brief for Appellee at page 64.

ment rule, is the principle the Department of Justice has not liked, and that, and not the consignment rule, is what four justices—but not the Court—wanted to overrule in the *Line Material* case; it had nothing to do with consignment at all.*

The *Gypsum* case, cited by appellant in the passage quoted above, is not relevant because it had nothing to do with consignment but involved a horizontal conspiracy to use patent restrictions. That is plain in the face of the decision, and is so stated in *Automatic Radio Co. v. Hazeltine,* 339 U.S. 827, 832.

As an added element among the equities precluding the new rule announced by the Supreme Court in *Simpson* from being applied retroactively, our brief referred to Simpson's own conduct (Brief for Appellee, pp. 52-54). In reply appellant refers (App. Rep. Br., pp. 11-13) to *Perma-Life Mufflers, Inc. v. International Parts Corporation,* 20 L.ed. 982, decided by the Supreme Court on June 10, 1968. *Perma-Life* deals with the question of the extent, if any at all, to which the doctrine of *pari delicto* is applicable

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*Even as to the patent issue, Simpson's counsel is in error in suggesting that *General Electric* has been overruled. It was applied in *United States v. Huck Mfg. Co.,* 227 F.Supp. 791 (E.D. Mich. 1964), and affirmed *per curiam* by an equally divided court in 382 U.S. 197 (1965), a year after the *Simpson* decision, although the Department of Justice in its jurisdictional statement asked the Supreme Court to overrule the patent rule of the *General Electric* case. And see *Prestone Corp. v. Tinnerman Products Inc.,* 271 F.2d 146 (6 Cir. 1959), cert. den. 361 U.S. 964 (1960).

Line Material, decided in 1948, in no way cast doubt on the consignment rule of *General Electric.* In *United States v. General Electric Co.,* 82 F.Supp. 753 (D. N.J. 1949), in a 150 page opinion Judge Forman held that, under the patent-antitrust principles which had been spelled out by the Supreme Court in *Line Material* and similar cases since 1926, General Electric had violated Sections 1 and 2 of the Sherman Act by using its dominant patent position to build a monopoly, but that General Electric's consignment method of distribution did not violate the antitrust laws any more in 1949 than it had in 1926 (82 F.Supp. at 817-826). Four years later, in 1953, when Judge Forman entered the final decree on his 1949 decision, he reasserted the continuing validity of the *General Electric* consignment rule, *United States v. General Electric Co.,* 115 F.Supp. 835, and the Government did *not* appeal. This was but 1 year before Union Oil decided to adopt a consignment system patterned on General Electric's.

in antitrust damage cases and extended the Supreme Court's holding in the *Simpson* case that a plaintiff's participation in an illegal agreement did not preclude him from recovery. Exactly what principle *Perma-Life* lays down has been a subject of discussion and debate. A commentary of June 11, 1968 (No. 361 A.T.R.R. p. A-1) notes that no principle had the concurrence of more than four justices. But all this is quite besides the point. As we said in the Brief for Appellee, at page 54:

> "Here, as throughout his brief, *appellant confuses facts and holdings relevant to the question of what should be the new rule of law with the entirely different question of relevance to the equity issue whether the new rule of law should be retroactively applied.* Of course, if anyone were *now* to act as Simpson did, antipathy to the lack of morals in that conduct would have to succumb to the supremacy of the Sherman Act as now declared. But the issue in the instant case *is the equity or fairness of applying that rule to the events of 1956-1958.*"

On that issue appellant's discussion of *Perma-Life* has no bearing.

CONCLUSION

We respectfully submit that the judgment should be affirmed.

Dated: San Francisco, California, September 10, 1968.

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